



MADIBENG LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

General Information

Legal form of entity	Local Municipiaplity
Mayoral committee	Cllr. Klaas S Cllr. Maluleke RL Cllr. Mangoathe FM Cllr. Maswanganyi NM Cllr. Molefe WS Cllr. Monthso BG Cllr. Nqetho MG Cllr. Nthangeni SDN Cllr. Rakolle NR
Executive Mayor	Cllr. Magongwa MP
Councillors	Cllr. MZ Banda Cllr. EJ Barlow Cllr. LJ Basson Cllr. GD Betha Cllr. Tsheko Cllr. TS Bogale Cllr. Breytenbach Cllr. S Davids Cllr. RB Ellis Cllr. S Klaas Cllr. RD Lekoane Cllr. EDF Lourens Cllr. P Maakane Cllr. MM Machette Cllr. MP Magongwa Cllr. BD Mahlaole Cllr. DS Maimane Cllr. PB Makgabo Cllr. ML Makgale Cllr. PB Makhongele Cllr. SS Malete Cllr. RL Maluleke Cllr. PD Mamogwe Cllr. FM Mangoathe Cllr. P Mantu Cllr. NM Maringa Cllr. JS Masina Cllr. PN Masuhlo Cllr. NM Maswanganyi Cllr. K Matli Cllr. SA Matome Cllr. SM Maunatlala Cllr. LE Meso Cllr. DP Mhlanga Cllr. JT Moabo Cllr. ME Moatshe Cllr. TM Modisha Cllr. ETM Modise Cllr. RK Mogotsi Cllr. WS Molefe Cllr. MS Moloi

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General Information

Cllr. S Monnakgotla
Cllr. BG Montsho
Cllr. NJ Montsho
Cllr. PN More
Cllr. FJ Motepe
Cllr. G Motlhokapudi
Cllr. S Mpongwana
Cllr. S Nngubegusha
Cllr. LL Nkhoma
Cllr. MG Nqetho
Cllr. SDN Nthangeni
Cllr. KS Ntshabele
Cllr. II Padi
Cllr. AG Peplar
Cllr. HT Phalwane
Cllr. PA Phetlhe
Cllr. J Pieterse
Cllr. NR Rakolle
Cllr. IS Raseroke
Cllr. GJ Rossouw
Cllr. J Sefundi
Cllr. CD Sekhoto
Cllr. M Seroro
Cllr. WI Strauss
Cllr. JG Tshabalala
Cllr. AM Tshidi
Cllr. TPJ Tsotetsi
Cllr. EE Tanke
Cllr. EM Thabane
Cllr. I Nkosi
Cllr. M Maliwa

Grading of local authority 4

Chief Finance Officer (CFO) T Nkuna

Accounting Officer M Juta

Registered office 53 Van Velden Street
Brits
0250

Business address 53 Van Velden Street
Brits
0250

Postal address PO Box 106
Brits
0250

Bankers ABSA Bank Limited

Auditors Auditor General

Madibeng Local Municipality

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 54, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2012 and were signed on its behalf by:

M Juta
Municipal Manager

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Officer's Report

The accounting officer submits his report for the year ended June 30, 2012.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The accounting officer has no interests in contracts awarded.

5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Changes
M Juta	Appointed 06 February 2012

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

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Accounting Officer's Report

Board of directors

The Board:

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;
- is of a unitary structure comprising:
 - non-executive directors, all of whom are independent directors as defined in the Code; and
 - executive directors.
- has established a Board directorship continuity programme.

Chair person and chief executive

The Chairperson is a non-executive and independent director (as defined by the Code).

The roles of Chairperson and Chief Executive are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

Remuneration

The upper limits of the remuneration of the Chief Executive Officer, and the Chief Financial Officer, who are the only two executive directors of the municipality, are in line with the constitution, and the accounting officer will determine the remuneration within the above mentioned limits.

Internal audit

The municipality has employed a chief internal auditor for the year under review.
Mr. S. Matjele.

This is in compliance with the Municipal Finance Management Act, 2003.

8. Bankers

The municipality banks primarily with ABSA Bank Limited.

9. Auditors

Auditor General will continue in office for the next financial period.

10. Public Private Partnership

The municipality has no interest in any Public Private Partnerships.

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	7	4,916,835	3,602,544
Other financial assets	4	61,747,944	103,829,580
Trade and other receivables from exchange transactions	8	-	39,912
VAT receivable	9	15,601,311	-
Consumer debtors	10	234,858,579	210,415,580
Other assets		1,689,092	-
Other receivables	6	123,197	133,605
Cash and cash equivalents	11	39,368,849	78,724,535
		358,305,807	396,745,756
Non-Current Assets			
Investment property	2	91,249,000	90,759,000
Property, plant and equipment	3	1,598,080,209	1,409,835,640
Other financial assets	4	22,852,108	33,920,864
Other receivables	6	12,103,597	12,195,580
		1,724,284,914	1,546,711,084
Total Assets		2,082,590,721	1,943,456,840
Liabilities			
Current Liabilities			
Other financial liabilities	12	5,619,231	8,628,907
Finance lease obligation	13	580,718	711,634
Trade and other payables from exchange transactions	16	232,907,269	268,125,751
VAT payable	17	-	20,538,321
Consumer deposits	18	12,887,265	9,710,672
Unspent conditional grants and receipts	14	75,377,563	113,137,811
		327,372,046	420,853,096
Non-Current Liabilities			
Other financial liabilities	12	540,164,376	489,368,773
Finance lease obligation	13	720,894	1,353,392
Provisions	15	101,442,882	97,317,324
		642,328,152	588,039,489
Total Liabilities		969,700,198	1,008,892,585
Net Assets		1,112,890,523	934,564,255
Net Assets			
Accumulated surplus		1,112,890,523	934,564,255

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates		162,536,709	138,402,499
Service charges	20	438,283,116	348,285,395
Rental of facilities and equipment		659,598	893,969
Interest received (trading)		43,272,638	36,721,506
Fines		453,207	1,563,539
Licences and permits		5,273,345	4,120,380
Government grants & subsidies	21	458,755,219	284,568,103
Agency fees		8,754,694	8,182,056
Other income	22	19,068,253	14,521,337
Interest received (investment)	27	10,738,501	10,548,309
Dividends received	27	-	7,006
Total Revenue		1,147,795,280	847,814,099
Expenditure			
Personnel	24	(230,634,316)	(197,093,609)
Remuneration of councillors	25	(19,769,000)	(15,364,992)
Depreciation and amortisation	29	(37,825,408)	(37,843,084)
Finance costs	30	(73,813,563)	(74,582,662)
Debt impairment	26	(140,447,948)	(112,964,373)
Repairs and maintenance		(18,519,337)	(18,017,511)
Bulk purchases	33	(317,871,122)	(287,304,373)
Contracted services	32	(41,729,202)	(50,597,663)
General Expenses	23	(96,978,161)	(79,881,970)
Total Expenditure		(977,588,057)	(873,650,237)
Gain on disposal of assets and liabilities		-	15,913
Actuarial loss on post employment benefits		6,462,328	(13,728,000)
Fair value adjustments	28	1,656,709	541,163
Surplus (deficit) for the year		178,326,260	(39,007,062)

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Annual Financial Statements for the year ended June 30, 2012

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 01, 2010	973,571,317	973,571,317
Changes in net assets		
Surplus for the year	(39,007,062)	(39,007,062)
Total changes	(39,007,062)	(39,007,062)
Balance at July 01, 2011	934,564,263	934,564,263
Changes in net assets		
Surplus for the year	178,326,260	178,326,260
Total changes	178,326,260	178,326,260
Balance at June 30, 2012	1,112,890,523	1,112,890,523

Note(s)

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		354,435,392	204,410,486
Grants		245,586,752	283,075,087
Interest income		10,738,501	10,548,309
Dividends received		-	7,006
Other receipts		17,189,055	16,707,997
		627,949,700	514,748,885
Payments			
Employee costs		(241,207,931)	(218,481,498)
Suppliers		(225,966,831)	(69,247,710)
Finance costs		(73,583,485)	(74,349,441)
		(540,758,247)	(362,078,649)
Net cash flows from operating activities	34	87,191,453	152,670,236
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(226,069,974)	(55,957,377)
Proceeds from sale of financial assets		54,317,101	(88,459,112)
Increase in other assets		(1,689,092)	-
Decrease in other receivables		102,391	116,195
Net cash flows from investing activities		(173,339,574)	(144,300,294)
Cash flows from financing activities			
Repayment of other financial liabilities		47,785,927	13,681,652
Finance lease payments		(993,492)	(1,025,891)
Net cash flows from financing activities		46,792,435	12,655,761
Net increase/(decrease) in cash and cash equivalents		(39,355,686)	21,025,703
Cash and cash equivalents at the beginning of the year		78,724,535	57,698,832
Cash and cash equivalents at the end of the year	11	39,368,849	78,724,535

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Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

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Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 5.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Infrastructure Assets

The following is the list of infrastructure assets with the estimated useful life in years indicated in brackets.

Electricity

Power stations	(30)
Cooling towers	(30)
Transformer Kiosks	(30)
Meters	(20)
Load control equipment	(20)

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.3 Property, plant and equipment (continued)

Switchgear	(20)
Supply and reticulation networks	(20)
Mains	(20)
 Roads	
Motorways	(15)
Other roads	(10)
Traffic Islands	(10)
Traffic Lights	(20)
 Street lights	(25)
Overhead bridges	(30)
Stormwater drains	(20)
Bridges, subways and culverts	(30)
Car parks	(20)
Bus terminals	(20)
 Water	
Mains	(20)
Supply and reticulation networks	(20)
Reservoirs and storage tanks	(20)
Meters	(15)
Rights(to draw water from a particular source Belonging to another party)	(20)
 Gas	
Supply and reticulation networks	(20)
Storage tanks	(20)
Mains	(20)
Meters	(20)
 Sewerage	
Sewer mains	(20)
Outfall sewer	(20)
Sewerage purification works	(20)
Sewerage pumps	(15)
Sludge machines	(15)
 Pedestrian malls	
Footways	(20)
Kerbing	(20)
Paving	(20)
 Airports	
Runways	(20)
Aprons	(20)
Airport and radio beacons	(20)
 Taxiways	(20)
 Security measures	
Access control systems	(5)
Security systems	(5)
Security fencing	(3)

COMMUNITY ASSETS

The following is a list of community assets, showing the assigned estimated useful lives years in brackets.

Building and other assets

Ambulance stations	(30)
Aquariums	(30)

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Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.3 Property, plant and equipment (continued)

Beach developments	(30)
Care centres	(30)
Cemeteries	(30)
Civic centre	(30)
Clinics and hospitals	(30)
Community centres	(30)
Fire stations	(30)
Game reserves and rest camps	(30)
Indoor sports	(30)
Libraries	(30)
Museums and art galleries	(30)
Parks	(30)
Public conveniences and bath houses	(30)
Recreation centres	(30)
Sports and related stadia	(30)
Zoos	(30)
Recreation facilities	
Bowling greens	(20)
Tennis courts	(20)
Swimming pools	(20)
Golf courses	(20)
Jukskei pitches	(20)
Outdoor sports facilities	(20)
Organs (that is .pipe, organs that are fixtures in a Municipal hall or other centre)	(20)
Lakes and dams	(20)
Fountains	(20)
Flood lighting	(20)

HERITAGE ASSETS

The following is the list of at least some typical heritage assets encountered in a municipality's environment (no asset lives are given, as no ordinary depreciation will be charged against such assets):

- Museum exhibits
- Works of art (which will include paintings and sculptures)
- Public statues
- Historical buildings or other historical structures (such as war memorials)
- Historical sites (e.g. an Iron Age kiln, historical battle site or site of a historical settlement.)

OTHER ASSETS

The following is a list of other assets, showing the estimated useful lives years in brackets

Buildings

Abattoirs	(30)
Asphalt plant	(30)
Cable stations	(30)
Caravan parks	(30)
Compacting stations	(30)
Hostels used to accommodate the public or tourists	(30)
Housing schemes	(30)
Kilns	(30)
Laboratories	(30)
Fresh produce and other markets	(30)
Nurseries	(30)
Office buildings	(30)
Old age homes	(30)
Quarries	(30)
Tip sites	(30)
Training centres	(30)
Transport facilities	(30)

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Accounting Policies

1.3 Property, plant and equipment (continued)

Workshops and depots	(30)
Office equipments	
Computer hardware	(5)
Computer software	(3-5)
Office machines	(3-5)
Air conditioners	(5-7)
Furniture and fittings	
Chairs	(7-10)
Tables and desks	(7-10)
Cabinets and cupboards	(7-10)
Bins and containers	
Household refuse bins	(5)
Bulk refuse containers	(10)
Emergency equipment	
Fire hoses	(5)
Other fire fighting equipment	(15)
Emergency lights	(5)
Motor vehicles	
Ambulances	(5-10)
Fire engines	(20)
Buses	(15)
Trucks and light delivery vehicles	(5-7)
Ordinary motor vehicles	(5-7)
Motor cycles	(3)
Plant and equipment	
Graders	(10-15)
Tractors	(10-15)
Mechanical horses	(10-15)
Farm equipment	(5)
Lawn mowers	(2)
Compressors	(5)
Laboratory equipment	(5)
Radio equipment	(5)
Firearms	(5)
Telecommunication equipment	(5)
Cable cars	(15)
Irrigation systems	(15)
Cremators	(15)
Lathes	(15)
Filling equipment	(15)
Conveyors	(15)
Feeders	(15)
Tippers	(15)
Pelverising mills	(15)
Other assets	
Aircraft	(15)
Watercraft	(15)

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Madibeng Local Municipality

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Accounting Policies

1.3 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Madibeng Local Municipality

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Accounting Policies

1.5 Intangible assets (continued)

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values.

1.6 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - held for trading
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at trade date.

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Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit include dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Madibeng Local Municipality

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Accounting Policies

1.6 Financial instruments (continued)

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Madibeng Local Municipality

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Accounting Policies

1.6 Financial instruments (continued)

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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Accounting Policies

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

Madibeng Local Municipality

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1.8 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

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Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Madibeng Local Municipality

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Accounting Policies

1.10 Employee benefits (continued)

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.11 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount, and account for any impairment loss, in accordance with the amounting policy on impairment of assets as described in accounting policy 1.9 and .
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender.

Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.14 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.15 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.20 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.21 Presentation of currency

These annual financial statements are presented in South African Rand.

1.22 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.23 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand

2012 2011

2. Investment property

	2012		2011	
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation
Investment property	91,249,000	-	91,249,000	90,759,000

Reconciliation of investment property - 2012

	Opening balance	Fair value adjustments	Total
Investment property	90,759,000	490,000	91,249,000

Reconciliation of investment property - 2011

	Opening balance	Total
Investment property	90,759,000	90,759,000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

3. Property, plant and equipment

	2012		2011	
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Cost / Valuation	Accumulated depreciation and accumulated impairment
Land	94,259,293	(9,269,755)	84,989,538	94,259,293
Infrastructure	1,365,528,036	(169,458,784)	1,196,069,252	1,136,750,397
Community	254,775,146	(27,560,333)	227,214,813	254,775,146
Leased Assets	5,154,322	(5,154,322)	-	5,154,321
Heritage	10,100	-	10,100	10,100
Other property, plant and equipment	139,140,557	(49,344,051)	89,796,506	141,848,221
Total	1,858,867,454	(260,787,245)	1,598,080,209	1,632,797,478
				(222,961,838) 1,409,835,640

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Depreciation	Total
Land	84,989,538	-	-	84,989,538
Infrastructure	1,005,117,019	228,777,638	(37,825,405)	1,196,069,252
Community	227,214,813	-	-	227,214,813
Heritage	10,100	-	-	10,100
Other property, plant and equipment	92,504,170	(2,707,664)	-	89,796,506
	1,409,835,640	226,069,974	(37,825,405)	1,598,080,209

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand

2012 2011

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Land	87,441,889	-	(2,452,351)	84,989,538
Infrastructure	970,841,325	55,957,377	(21,681,683)	1,005,117,019
Community	232,734,296	-	(5,519,483)	227,214,813
Heritage	10,100	-	-	10,100
Other property, plant and equipment	100,693,739	-	(8,189,569)	92,504,170
	1,391,721,349	55,957,377	(37,843,086)	1,409,835,640

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Other financial assets

At fair value through surplus or deficit - held for trading

Listed shares	1,186,234	878,360
The listed shares consist of:		
Sanlam Limited		
- Cost	25,647	25,647
- Fair value	55,233	42,580
Old Mutual limited		
- Cost	834,040	834,040
- Fair value	1,131,000	835,780
Unit trusts	7,545,753	7,266,340
Old Mutual Unit Trusts		
Other investments	75,868,065	129,605,744
Other investments consist of:		
Sanlam	815,490	773,816
Old Mutual	1,682,296	1,682,296
Momentum	61,747,942	101,373,467
Nedbank Gilts	11,622,335	10,937,846
Old Mutual	-	14,838,319

The Old Mutual investment have been ceded to DBSA.

84,600,052 137,750,444

Non-current assets

At fair value through surplus or deficit - held for trading	22,852,108	33,920,864
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Current assets

At fair value through surplus or deficit - held for trading	61,747,944	103,829,580
	84,600,052	137,750,444

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
5. Employee benefit obligations		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	88,419,000	66,807,000
Benefits paid	(1,982,757)	(1,841,000)
Net expense recognised in the statement of financial performance	5,912,672	23,453,000
Closing balance	92,348,915	88,419,000

Net expense recognised in the statement of financial performance

Current service cost	4,184,000	3,169,000
Interest cost	8,191,000	6,556,000
Actuarial (gains) / losses	(6,462,328)	13,728,000
Total included in employee related costs	5,912,672	23,453,000

Calculation of actuarial gains and losses

Actuarial (gains) / losses – Obligation	(6,462,328)	13,728,000
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Key assumptions used

Assumptions used at the reporting date:

Discount rates used	7.97 %	9.15 %
Expected increase in healthcare costs	6.87 %	7.70 %
Nett discount rate	1.04 %	1.35 %

6. Other receivables

Long term debtors	12,226,794	12,329,185
Non-current assets		
At amortised cost	12,103,597	12,195,580
Current assets		
At amortised cost	123,197	133,605
	12,226,794	12,329,185

Housing loans were granted to qualifying individuals in terms of the provincial administrations housing programme. These loans are interest free and have no fixed terms of repayment.

7. Inventories

Consumable stores	4,018,899	3,554,975
Water	897,936	47,569
	4,916,835	3,602,544

8. Trade and other receivables from exchange transactions

Prepayments	-	39,912
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9. VAT receivable

VAT	15,601,311	-
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Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

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10. Consumer debtors

Gross balances		
Rates	260,581,941	207,612,657
Electricity	101,580,430	82,311,685
Water	285,075,011	263,213,622
Sewerage	65,866,980	53,233,205
Refuse	59,946,824	52,236,464
Other	194,096,325	143,648,930
	967,147,511	802,256,563
Less: Provision for debt impairment		
Rates	(247,200,517)	(154,026,638)
Electricity	(97,057,663)	(59,431,690)
Water	(93,717,236)	(194,191,998)
Sewerage	(62,598,132)	(38,149,938)
Refuse	(56,952,043)	(37,915,802)
Other	(174,763,341)	(108,124,917)
	(732,288,932)	(591,840,983)
Net balance		
Rates	13,381,424	53,586,019
Electricity	4,522,767	22,879,995
Water	191,357,775	69,021,624
Sewerage	3,268,848	15,083,267
Refuse	2,994,781	14,320,662
Other	19,332,984	35,524,013
	234,858,579	210,415,580
Rates		
Current (0 -30 days)	18,422,412	12,032,785
31 - 60 days	7,963,783	7,179,147
61 - 90 days	6,929,326	6,208,708
> 90 days	227,266,420	182,192,017
Provision for debt impairment	(247,200,517)	(154,026,638)
	13,381,424	53,586,019
Electricity		
Current (0 -30 days)	24,736,148	20,532,732
31 - 60 days	13,403,569	8,527,434
61 - 90 days	6,114,093	5,923,918
> 90 days	57,326,620	45,242,264
Provision for debt impairment	(97,057,663)	(57,346,353)
	4,522,767	22,879,995
Water		
Current (0 -30 days)	5,732,726	3,343,966
31 - 60 days	4,643,440	2,837,731
61 - 90 days	3,429,151	2,058,675
> 90 days	83,835,222	254,973,249
Provision for debt impairment	93,717,236	(194,191,997)
	191,357,775	69,021,624

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
10. Consumer debtors (continued)		
Sewerage		
Current (0 -30 days)	2,861,141	2,017,176
31 - 60 days	2,169,943	1,519,611
61 - 90 days	1,949,047	1,335,814
> 90 days	58,886,849	48,360,605
Provision for debt impairment	(62,598,132)	(38,149,939)
	3,268,848	15,083,267
Refuse		
Current (0 -30 days)	2,132,491	2,007,004
31 - 60 days	1,770,223	1,541,392
61 - 90 days	1,398,881	1,397,789
> 90 days	54,645,229	47,290,278
Provision for debt impairment	(56,952,043)	(37,915,801)
	2,994,781	14,320,662
Other (specify)		
Current (0 -30 days)	4,192,514	4,409,395
31 - 60 days	3,964,695	3,489,271
61 - 90 days	3,851,653	3,657,439
> 90 days	182,087,463	131,976,630
Provision for debt impairment	(174,763,341)	(108,008,722)
	19,332,984	35,524,013
Reconciliation of debt impairment provision		
Balance at beginning of the year	(591,840,983)	(478,876,611)
Contributions to provision	(140,447,949)	(112,964,372)
	(732,288,932)	(591,840,983)

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	11,764	19,673
Bank balances	20,934,390	37,751,158
Short-term deposits	18,422,695	40,953,704
	39,368,849	78,724,535

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

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2012 2011

11. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2012	June 30, 2011	June 30, 2010
ABSA Bank Cheque Account	57,563,276	23,605,130	2,837,080	18,647,762	34,461,485	(7,311,572)
ABSA Bank Cheque Account	857	658	135,735	857	658	135,735
ABSA Bank Cheque Account	4,698	1,161	1,943	4,698	1,161	1,886
ABSA Bank Cheque Account	2,007,038	3,016,320	6,418,911	2,007,038	3,016,320	6,418,911
ABSA Bank Cheque Account	207,350	203,902	186,401	207,350	203,902	186,401
Standard Bank Cheque Account	66,685	67,633	68,491	66,685	67,633	68,491
Standard Bank Call Account	4,278	4,214	4,151	4,278	4,214	4,151
Standard Bank Call Account	753,084	720,638	687,062	753,084	720,638	687,062
Public Investment Corporation	-	1,685,113	1,605,042	-	1,692,038	1,605,042
ABSA Bank Call Account	830,940	17,996,207	31,728,582	830,940	17,996,207	31,728,582
ABSA Bank Call Account	1,486,642	1,421,757	8,654,123	1,486,642	1,421,757	8,654,123
ABSA Bank Call Account	3,038,920	2,905,138	2,767,251	3,038,920	2,905,138	2,767,251
ABSA Bank Call Account	11,588,814	15,528,832	12,845,859	11,588,814	15,528,832	12,845,859
Investec Capital Markets	720,017	684,879	649,663	720,017	684,879	649,663
Total	78,272,599	67,841,582	68,590,294	39,357,085	78,704,862	58,441,585

12. Other financial liabilities

Held at amortised cost

Development Bank of South Africa (DBSA)	7,240,647	20,292,202
The loans are unsecured, bear interest at fixed rates and are repayable in half yearly installments. Refer to Appendix A for detail on the loans.		

Public Investment Corporation (PIC)

The loans are unsecured, bear interest at fixed rates and are repayable in half yearly installments. Refer to Appendix A for detail on the loans.	538,542,960	477,705,478
545,783,607 497,997,680		

Non-current liabilities

At amortised cost	540,164,376	489,368,773
545,783,607 497,997,680		

Current liabilities

At amortised cost	5,619,231	8,628,907
545,783,607 497,997,680		

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13. Finance lease obligation

Minimum lease payments due			
- within one year	737,212	871,273	
- in second to fifth year inclusive	780,700	1,488,638	
	1,517,912	2,359,911	
less: future finance charges	(216,300)	(294,884)	
Present value of minimum lease payments	1,301,612	2,065,027	
Present value of minimum lease payments due			
- within one year	580,718	711,634	
- in second to fifth year inclusive	720,894	1,353,392	
	1,301,612	2,065,026	
Non-current liabilities	720,894	1,353,392	
Current liabilities	580,718	711,634	
	1,301,612	2,065,026	

The average lease term was 5 years and the average effective borrowing rate was 12% (2011: 12%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts			
Municipal Systems Improvement Grant	-	205,302	
Expanded Public Work Programme	3,085,695	1,164,000	
Library Grant	-	192,271	
Municipal Infrastructure Grant	70,028,412	111,576,238	
Disaster Management Grant	2,263,456	-	
	75,377,563	113,137,811	

Movement during the year

Balance at the beginning of the year	113,137,811	26,455,687
Additions during the year	182,581,934	152,527,217
Income recognition during the year	(220,342,182)	(65,845,093)
	75,377,563	113,137,811

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15. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Provision for the restoration of landfill site	8,898,431	195,643	-	9,094,074
Provision for post-employment benefits	88,418,893	5,912,672	(1,982,757)	92,348,808
	97,317,324	6,108,315	(1,982,757)	101,442,882

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Provision for the restoration of landfill site	4,000,000	4,898,431	8,898,431
Provision for post-employment benefits	66,806,893	21,612,000	88,418,893
	70,806,893	26,510,431	97,317,324

Key financial assumptions used for the valuation of the closure costs for the Hartebeesfontein landfill site are as follow:

CPI	5.92%	5.00%
Discount rate	8.17%	7.00%
Nett effective discount rate	2.25%	2.00%

It is estimated that the landfill site has a remaining useful life of 9 years.

Refer to note 6 for details on the post employment benefits.

Environmental rehabilitation provision

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Employee benefit cost provision

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

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16. Trade and other payables from exchange transactions		
Trade payables	153,226,768	208,340,189
Payments received in advanced	46,312,667	40,531,189
Retentions	18,600,212	12,620,608
Accrued leave pay	8,335,173	5,544,984
Accrued bonus	4,846,382	4,673,460
Other payables	1,586,067	(3,584,679)
	232,907,269	268,125,751
17. VAT payable		
Tax refunds payables	-	20,538,321
18. Consumer deposits		
Consumer deposits	12,887,265	9,710,672
19. Revenue		
Agency fees	8,754,694	8,182,056
Fines	453,207	1,563,539
Government grants & subsidies	458,755,219	284,568,103
Interest received – trading	43,272,638	36,721,506
Licences and permits	5,273,345	4,120,380
Property rates	162,536,709	138,402,499
Rental of facilities & equipment	659,598	893,969
Service charges	438,283,116	348,285,395
	1,117,988,526	822,737,447
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	438,283,116	348,285,395
Rental of facilities & equipment	659,598	893,969
Interest received – trading	43,272,638	36,721,506
Licences and permits	5,273,345	4,120,380
	487,488,697	390,021,250
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	162,536,709	138,402,499
Fines	453,207	1,563,539
Transfer revenue		
Levies	458,755,219	284,568,103
Agency fees	8,754,694	8,182,056
	630,499,829	432,716,197
20. Service charges		
Sale of electricity	317,492,757	257,246,010
Sale of water	60,342,349	42,663,881
Sewerage and sanitation charges	26,093,531	24,828,082
Refuse removal	34,354,479	23,547,422
	438,283,116	348,285,395

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Figures in Rand	2012	2011
21. Government grants and subsidies		
Equitable Share	237,404,000	217,229,995
Department of Water Affairs and Forestry	4,169,934	5,683,016
Finance Management Grant	1,500,000	1,000,000
Municipal Systems Improvement Grant	995,302	1,034,076
SETA: EPWP Training	1,487,341	150,108
Library grant	192,271	307,729
Municipal Infrastructure Grant	205,487,827	50,199,071
Bulk Services Contribution	-	78,360
Integrated National Electrification Programme	7,202,000	-
COGTA Water Infrastructure Grant	-	3,000,000
Bojanala Platinum District Municipality Grant	80,000	5,885,748
Disaster Management Grant	236,544	-
	458,755,219	284,568,103
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Department of Water Affairs and Forestry		
Current-year receipts	4,169,934	4,190,001
Conditions met - transferred to revenue	(4,169,934)	(4,190,001)
	-	-
Finance Management Grant		
Current-year receipts	1,500,000	1,000,000
Conditions met - transferred to revenue	(1,500,000)	(1,000,000)
	-	-
Municipal Systems Improvement Grant		
Balance unspent at beginning of year	205,302	489,378
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(995,302)	(1,034,076)
	-	205,302
Expanded Public Works Programme		
Balance unspent at beginning of year	1,164,000	-
Current-year receipts	2,400,000	1,164,000
Conditions met - transferred to revenue	(478,305)	-
	3,085,695	1,164,000
Library Grant		
Balance unspent at beginning of year	192,271	-
Current-year receipts	-	500,000
Conditions met - transferred to revenue	(192,271)	(307,729)
	-	192,271

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21. Government grants and subsidies (continued)		
Municipal Infrastructure Grant		
Balance unspent at beginning of year	111,576,238	25,466,309
Current-year receipts	163,940,000	136,309,000
Conditions met - transferred to revenue	(205,487,826)	(50,199,071)
	70,028,412	111,576,238
Integrated National Electrification Programme		
Current-year receipts	7,202,000	-
Conditions met - transferred to revenue	(7,202,000)	-
	-	-
Bojanala Platinum District Municipality Grant		
Current-year receipts	80,000	-
Conditions met - transferred to revenue	(80,000)	-
	-	-
Disaster Management Grant		
Current-year receipts	2,500,000	-
Conditions met - transferred to revenue	(236,544)	-
	2,263,456	-
22. Other income		
Advertising hoarding	210,806	200,373
Building plans	701,952	585,221
Cemetery fees	851,234	719,037
Electrical sales departmental trading	9,291,705	7,021,533
Insurance commision	2,119,613	100,022
Notice fees	99,380	311,469
Other income	136,833	2,498,002
Other income 14	2,204,083	-
Reconnection fees	1,272,597	785,654
Refuse removal departmental sales	372,865	-
Service connections	722,626	599,217
Servitude income	-	602,490
Tender document fees	478,212	150,473
Town planning	174,358	257,291
Valuation fees	29,885	41,675
Water sales departmental trading	402,104	648,880
	19,068,253	14,521,337

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23. General expenses

Advertising	655,157	404,181
Assistance to indigents	9,561,278	8,430,368
Auditors remuneration	5,615,041	1,904,985
Bank charges	1,280,582	561,506
Chemicals	6,177,668	3,208,417
Cleaning	322,213	268,023
Commission paid	1,589,368	1,442,705
Consulting and professional fees	10,064,419	9,544,916
Discount allowed	1,209,080	2,730,651
Refreshments	219,232	73,779
Formalisation of townships	1,684,332	420,456
Insurance	2,462,013	3,089,197
Lease rentals on operating lease	10,896,213	11,355,851
Licence fees	2,266,023	123,342
Other expenses	18,531,634	16,512,167
Printing and stationery	1,445,683	785,030
Printing of statements	1,851,005	1,673,662
Protective clothing	546,046	299,416
Social programmes	4,084,032	1,565,625
Stock written off	183,332	726,658
Subscriptions and membership fees	2,708,609	2,816,569
Telephone and fax	4,315,473	3,561,424
Training	938,865	1,713,611
Training levy	1,899,887	1,608,990
Transport - Fuel	4,292,305	2,780,240
Travel and accomodation	1,781,655	1,080,844
Valuation expense	397,016	1,199,357
	96,978,161	79,881,970

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24. Employee related costs		
Acting allowances	5,645,441	4,114,776
Basic	119,297,355	99,172,938
13th Cheques	9,631,336	9,455,164
Housing benefits and allowances	1,157,557	1,247,649
Industrial council	42,706	43,010
Leave pay provision charge	4,179,967	4,164,805
Medical aid - company contributions	16,634,091	14,926,499
Overtime payments	25,251,775	20,816,100
Provident and pension fund	27,079,462	24,587,150
Stand by allowances	1,414,188	1,403,160
Transitional allowances	18,681	24,453
Travel, motor car, accommodation, subsistence and other allowances	11,639,708	10,431,352
UIF	1,244,232	1,066,810
	223,236,499	191,453,866
Remuneration of municipal manager		
Annual Remuneration	833,939	537,279
Allowances	314,075	-
Contributions	145,468	11,074
	1,293,482	548,353
Remuneration of chief finance officer		
Annual Remuneration	818,983	454,303
Allowances	183,863	124,410
Contributions	1,497	118,013
	1,004,343	696,726
Remuneration of chief operating officer		
Annual Remuneration	568,180	640,423
Allowances	264,116	198,589
Contributions	163,976	169,795
	996,272	1,008,807
Remuneration of director community services		
Annual Remuneration	716,230	609,263
Allowances	175,655	153,276
Contributions	137,817	101,940
	1,029,702	864,479
Remuneration of director corporate support services		
Annual Remuneration	731,046	606,460
Allowances	182,456	136,044
Contributions	124,520	120,401
	1,038,022	862,905
Remuneration of director public safety		
Annual Remuneration	92,000	-

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24. Employee related costs (continued)		
Allowances	31,929	-
Contributions	20,490	-
	144,419	-
Remuneration of director infrastructure and technical services		
Annual Remuneration	485,938	516,863
Allowances	245,824	168,000
Contributions	125,761	108,671
	857,523	793,534
Remuneration of director local economic development		
Annual Remuneration	605,531	630,031
Allowances	229,675	120,000
Contributions	121,801	114,908
	957,007	864,939
Remuneration of director human settlement		
Annual Remuneration	45,000	-
Allowances	18,740	-
Contributions	13,307	-
	77,047	-
25. Remuneration of councillors		
Executive Mayor	690,405	608,076
Speaker	524,619	543,503
Single Whip	578,649	471,333
Mayoral Committee Members	4,493,236	3,767,313
Councillors	12,182,209	8,871,750
Councilors' pension contribution	1,299,882	1,103,017
	19,769,000	15,364,992
The remuneration of the councillors, directors and officials salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the constitution.		
26. Debt impairment		
Debt impairment	140,447,948	112,964,373
27. Investment revenue		
Dividend revenue		
Listed shares	-	7,006
Interest revenue		
Investments	10,572,189	10,376,801
Bank	166,312	171,508
	10,738,501	10,548,309
	10,738,501	10,555,315

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28. Fair value adjustments		
Investment property (Fair value model)	490,000	-
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	1,166,709	541,163
	1,656,709	541,163
29. Depreciation and amortisation		
Property, plant and equipment	37,825,408	37,843,084
30. Finance costs		
Non-current borrowings	64,292,178	65,650,847
Finance leases	230,078	233,221
Bank	930,813	2,142,594
Other interest paid	8,360,494	6,556,000
	73,813,563	74,582,662
31. Auditors' remuneration		
Fees	5,615,041	1,904,985
32. Contracted services		
Waste removal	12,505,568	12,954,092
Meter readings	1,188,717	1,420,693
Water tankers	9,035,727	5,305,815
Security services	11,040,038	17,205,649
Other contractors	7,959,152	13,711,414
	41,729,202	50,597,663
33. Bulk purchases		
Electricity	286,876,378	271,223,409
Water	30,994,744	16,080,964
	317,871,122	287,304,373

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Figures in Rand	2012	2011
34. Cash generated from operations		
Surplus / (deficit)	178,326,260	(39,007,062)
Adjustments for:		
Depreciation and amortisation	37,825,408	37,843,084
Loss on sale of assets and liabilities	-	(15,913)
Fair value adjustments	(1,656,709)	(541,163)
Finance costs - Finance leases	230,078	233,221
Debt impairment	140,447,948	112,964,373
Movements in provisions	4,125,558	26,510,431
Changes in working capital:		
Inventories	(1,314,291)	1,180,820
Trade and other receivables from exchange transactions	39,912	(39,912)
Consumer debtors	(164,890,947)	(121,628,889)
Trade and other payables from exchange transactions	(35,218,477)	49,197,629
VAT	(36,139,632)	(3,069,400)
Unspent conditional grants and receipts	(37,760,248)	87,441,837
Consumer deposits	3,176,593	1,601,180
	87,191,453	152,670,236

35. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	34,911,213	-
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Not yet contracted for and authorised by accounting officer

• Property, plant and equipment	61,607,384	-
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This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

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36. Contingencies

Application for eviction of illegal occupiers of the farm Hartbeespoort 419 known as Rashoop were postponed on 13 March 2010, total cost involved R 568 567,34

Default judgment was granted against Centuria 323. Summons issued by the municipality for payment of R 1 500 000, 00 and R 104 428, 02 being a portion of the amount paid by the municipality in terms of the settlement agreement on Michael Knight Properties matter. Total cost involved R 13 301, 43.

Summons for payment of R 13 071 380, 89 which is alleged to be for professional services rendered to the municipality is still pending.

The municipality received a summons in which the Plaintiff alleged in their particulars of claim that her minor child suffered serious injuries as result of the Municipality's negligence to take care of the electrical wires on the road of Phase 3 at Oukasie. The Plaintiff claim an amount of R 100 000, 00 against the municipality. The matter has been postponed to allow the plaintiff to submit the medical report.

The Plaintiff sue the Municipality R 50 000,00 for injuries she suffered and medical expenses she incurred by falling down and injured the whole of her left side due to faulty in the road at 33 Murray Street, Brits. The matter has been postponed to allow the plaintiff to submit medical report.

Notice of motion was brought against the Municipality wherein the Applicant seek an order to court to declare the current acquisition of stationery by the Municipality from unknown suppliers unlawful and interdict the municipality from acquiring the supply and delivery of stationery from unknown suppliers. The Municipality instructed Maenetja Attorneys to oppose the application of the Applicant. The Municipality responded on the affidavit on the 28th of July 2011. They are still waiting on a court date.

The Municipality was served with a notice of motion in which the applicant intends to interdict the respondent from acquiring the delivery and supply of cleaning material from an unknown source. The matter was handed to Maenetja Attorneys to defend the action. The Municipality is waiting on a court date.

Notice of motion wherein the applicant (Tracey Development (Pty) Ltd) seek an order for court to direct the Municipality to render a detailed, substantiated and reconciliated account to the applicant in respect if the amount of R 1 595 087,85 which was demanded by the municipality as clearance figure. The municipality is waiting on a court date, total cost involved so far is R 48 957, 87.

City Square 985 (Pty) Ltd summons for payment of R 172 623, 36 which is alleged to be for due diligence on HR and finance contracts involving the Municipality. The Municipality is still receiving attention of the attorneys.

Oppcrete Property Development put in an application to order the municipality to install both external and internal services at Schoemansville X2 township. The matter was enrolled on the 5th of March 2012 and was postponed.

Gaopaleloe Trading Enterprise CC lodged a notice of motion wherein the applicant is seeking an order for the court to declare the acquisition by the municipality from Sasol Limited to be declared unlawful. The matter has been handed over to Hugo & Ngewnya attorneys to assist the municipality in opposing the application. The matter is still receiving attention of the municipality attorneys.

On the 25th May 2012 a summons were served to the municipality wherein Izma Beleggings (Pty) Ltd is seeking an order directing the municipality to pay amongst others the amount of R 5 000 000,00 to the transferring attorneys in terms of the agreement of sale of property entered into and signed by the parties. The municipality instructed Geldinhys Lessing & Malatji attorneys to defend the matter.

Multi Fleet Services (Pty) Ltd summoned the municipality on the 28th May 2012, wherein the plaintiff seeks amongst others the return of the tractors or alternatively to pay the sum of R 212 000, 00 which is alleged to be the value of the two tractors. The municipality instructed Ngwenya attorneys to defend the municipality in this matter.

On the 4th of April 2012 the municipality received a summons from Kosmos Ridge Home Owners Association in respect of which they claim that the municipality didn't complied with the undertaking on the 10th of August 2011 after a court order were issued on the 25th of February 2005. They said the municipality failed to install services, and they claim past and future expenses incurred as a result of non-compliances of the court order by the municipality. The plaintiff sue the municipality for an amount of R 848 354, 07 and the future amount to be determined. The municipality instructed Maenetja attorneys to defend the

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36. Contingencies (continued)

matter for the municipality. The attorneys served the opponent with the notice of exception, and they served them with the amended particulars of claims.

On 12th April 2007 the Municipality and TMT entered into a written agreement for the provision of a comprehensive back office for Traffic find administration TMT request payment of R3 260 400.00 for breach of contract. The matter was to be arbitrated during November 2009 in Pretoria. The arbitration was cancelled and a new date will be issued once exchange of papers is finalised.

Phaphiri business enterprise cc sued the Municipality for an amount of R2 467 958.80 which is alleged to be a shortfall for payment of services rendered from April 2006 to March 2008 for .the removal service in the households, businesses, service container and street cleaning and removal of illegally dumped waste and this refers to those services at the eastern side of the Hartbeespoort. We have received a letter from Malatji Mohosh & Pooe Attorneys that the Plaintiff's Attorney withdrew and no new Attorneys appointed for the otherside.

Telkom issued a letter of demand claiming R24 316.94 as repair costs for underground cable at E74 Klipgat allegedly damaged by Madibeng Municipality employees.

37. Prior period errors

The opening balance on PIC loans were misstated due to an error on PIC amortisation schedules. The PIC loan balance and interest on the loan was adjusted accordingly.

The movement on abeyance debtors was not accounted for. The movement was accounted for and trade receivables was adjusted accordingly.

Year end sundry creditors was misstated due to suppliers not submitting invoices on a timely basis. The creditors balance and relating expenses have been adjusted accordingly.

Not all retentions were accounted for in the prior year due to suppliers not submitting invoices on a timely basis. Retentions and the infrastructure assets were adjusted accordingly.

Investment properties were included in property, plant and equipment in prior years. They have been reallocated to be disclosed separately.

Bank and investment accounts from Mothutlung not accounted for in prior years have been accounted for along with the relatinf interest and bank charges.

The leave provision was overstated in the prior year. It has been restated.

The landfill site valuation and post employment benefit obligation provisions were understated in the prior year. Adjustments were made based on profesionals' assessments.

SARS conducted a VAT review on the 2009/10 financial year and raised assessments in excess of R30 milion. The prior year figures have been restated to account for the change in VAT.

Traffic fine income was not accounted for in the prior year. Adjustments have been made to account for the income.

Retentions was overstated in the prior year.

The correction of the error(s) results in adjustments as follows:

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37. Prior period errors (continued)

Statement of financial position

Other financial liabilities	-	(2,434,950)
Trade payables	-	(7,163,986)
Consumer debtors	-	6,554,410
Retentions	-	(339,010)
Opening Accumulated Surplus or Deficit	-	(41,883,103)
Other assets	-	(116,195)
Provision for leave	-	6,022,906
Provisions	-	(16,921,431)
Investment property	-	90,759,000
Other payables	-	7,545,447
VAT	-	(35,849,796)
Cash and cash equivalents	-	1,590,167
Property, plant and equipment	-	(46,811,265)

Statement of Financial Performance

Finance costs	-	5,861,002
Expenditure - Repairs and maintenance	-	5,006,319
Expenditure - Bulk purchases	-	(3,666,193)
Expenditure - Contracted services	-	2,490,685
Expenditure - Other	-	3,011,090
Employee costs	-	(7,722,528)
Revenue	-	(2,290,696)
Revenue from investments	-	(33,639)
Other income	-	30,846,781

38. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

39. Events after the reporting date

- nature of the event.
- estimation of its financial effect or a statement that such an estimation cannot be made.

We are not aware of any events that occurred after year end that may have an impact on the financial statements.

40. Unauthorised expenditure

Unauthorised expenditure - overtime	18,287,459	6,061,168
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41. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - Interest on overdue accounts	2,073,405	3,010,606
---	-----------	-----------

42. Irregular expenditure

Opening balance	6,346,557	-
Add: Irregular Expenditure - current year	8,277,931	6,346,557
	14,624,488	6,346,557

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
42. Irregular expenditure (continued)		
Analysis of expenditure awaiting condonation per age classification		
Current year	8,277,931	6,346,557
Prior years	6,346,557	-
	14,624,488	6,346,557

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Overtime in excess of 10 hours per week	Text 2	8,277,931

43. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

No contributions were made to local organised government during the year.

Audit fees

Opening balance	1,462,565	823,096
Current year subscription / fee	4,527,169	2,020,303
Amount paid - current year	(1,886,747)	(1,380,834)
	4,102,987	1,462,565

PAYE and UIF

Opening balance	2,368,368	2,207,074
Current year subscription / fee	32,864,161	27,284,028
Amount paid - current year	(32,454,505)	(27,122,734)
	2,778,024	2,368,368

Pension and Medical Aid Deductions

Opening balance	1,534,442	1,484,986
Current year subscription / fee	20,619,170	18,808,944
Amount paid - current year	(20,400,054)	(18,759,488)
	1,753,558	1,534,442

VAT

VAT receivable	15,601,311	-
VAT payable	-	20,538,321
	15,601,311	20,538,321

VAT output payables and VAT input receivables are shown in note .

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand

2012

2011

43. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2012:

June 30, 2012	Outstanding	Outstanding	Total
	less than 90 days	more than 90 days	R
	R	R	
Banda MZ	4,458	-	4,458
Klaas S	3,353	-	3,353
Lekoane RD	1,603	-	1,603
Maakane P	2,758	-	2,758
Maimane DS	2,858	-	2,858
Makhongela PB	12,007	-	12,007
Mangoathe FM	1,426	-	1,426
Masina JS	20,648	-	20,648
Maswanganyi NM	18,825	-	18,825
Matome SA	13,905	-	13,905
Maunatlala SM	1,744	-	1,744
Meso E	46,135	-	46,135
Modise ETM	2,758	-	2,758
Mogotsi RK	5,147	-	5,147
Magongwa MP	1,846	-	1,846
Molefe WS	6,507	-	6,507
Motepe FJ	21,526	-	21,526
Nkosi I	649	-	649
Nqetho MG	821	-	821
Nthangeni SDN	2,758	-	2,758
Ntshabele KS	2,714	-	2,714
Strauss WI	51,995	-	51,995
Tanke EE	12,545	-	12,545
Tlhopane MP	851	-	851
Tshabalala JG	63,916	-	63,916
Tsotetsi TPJ	2,714	-	2,714
	306,467	-	306,467

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

44. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E1 for the comparison of actual operating expenditure versus budgeted expenditure.

Madibeng Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Madibeng Local Municipality

Appendix A

June 2012

Schedule of external loans as at 30 June 2010

	Loan Number	Redeemable	Balance at Thursday, June 30, 2011 Rand	Received during the period Rand	Redeemed written off during the period Rand	Interest Rand	Balance at Saturday, June 30, 2012 Rand
Development Bank of South Africa							
Project 10927/101	10927/101	2013/09/30	8,212,164	-	4,949,441	865,375	4,128,098
Project 13184/101	13184/101	2012/12/31	419,034	-	292,934	46,289	172,389
Project 10926/103	10926/103	2012/09/30	8,696,845	-	6,790,907	944,281	2,850,219
Project 103290/4	103290/4	2011/03/31	2,874,838	-	2,993,915	119,077	-
			20,202,881	-	15,027,197	1,975,022	7,150,706
Public Investment Corporation							
BR25	BR25	2003/06/30	197,975,049	-	557,258	25,475,580	222,893,371
BR26	BR26	2003/11/30	192,783,908	-	584,079	24,816,703	217,016,532
BR20	BR20	2003/11/30	86,946,521	-	248,334	11,934,870	98,633,057
			477,705,478	-	1,389,671	62,227,153	538,542,960
Lease liability							
ABSA Bank	074475740	2012/08/31	58,599	-	52,933	3,167	8,833
ABSA Bank	074475758	2012/08/31	23,651	-	21,436	1,358	3,572
ABSA Bank	073859722	2012/06/04	46,852	-	47,950	1,098	-
Fleet Africa	Gladiator	2014/07/31	662,988	-	273,832	93,896	483,052
Fleet Africa	Rescue Pumper	2012/07/31	1,272,936	-	613,272	146,491	806,155
			2,065,026	-	1,009,423	246,010	1,301,612
Total external loans							
Development Bank of South Africa			20,202,881	-	15,027,197	1,975,022	7,150,706
Public Investment Corporation			477,705,478	-	1,389,671	62,227,153	538,542,960
Lease liability			2,065,026	-	1,009,423	246,010	1,301,612
			499,973,385	-	17,426,291	64,448,185	546,995,278

Madibeng Local Municipality

Appendix D

June 2012

**Segmental Statement of Financial Performance for the year ended
Prior Year Current Year**

Actual Income Rand	Actual Expenditure Rand	Surplus /Deficit Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /Deficit Rand
Municipality						
456,523,484	201,411,757	255,111,727	Executive & Council/Mayor and Council	668,126,322	183,867,042	484,259,280
195,969	164,141,961	(163,945,992)	Finance & Admin/Finance	1,048,284	186,542,543	(185,494,259)
1,440,071	11,120,383	(9,680,312)	Planning and Development/Economic Development/Plan	1,441,665	15,511,875	(14,070,210)
-	7,868,325	(7,868,325)	Health/Clinics	-	8,309,028	(8,309,028)
-	390,089	(390,089)	Comm. & Social/Libraries and archives	-	809,193	(809,193)
617,797	5,222,577	(4,604,780)	Housing	10,211	13,928,834	(13,918,623)
14,072,793	42,757,521	(28,684,728)	Public Safety/Police	15,011,383	50,139,015	(35,127,632)
1,042,564	28,814,445	(27,771,881)	Sport and Recreation	991,794	32,787,893	(31,796,099)
27,065,569	35,300,949	(8,235,380)	Waste Water Management/Sewerage	26,403,446	37,005,483	(10,602,037)
5,885,748	20,702,401	(14,816,653)	Road Transport/Roads	-	35,790,280	(35,790,280)
76,388,808	65,247,148	11,141,660	Water/Water Distribution	99,980,185	95,233,066	4,747,119
264,830,646	280,290,179	(15,459,533)	Electricity /Electricity Distribution	328,076,121	310,081,633	17,994,488
848,063,449	863,267,735	(15,204,286)		,141,089,411	970,005,885	171,083,526
848,063,449	863,267,735	(15,204,286)	Municipality	,141,089,411	970,005,885	171,083,526
848,063,449	863,267,735	(15,204,286)	Total	,141,089,411	970,005,885	171,083,526

Madibeng Local Municipality

Appendix E(1)

June 2012

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2012

	Current year 2011	Current year 2011	Variance Rand	Explanation of Significant Variances greater than 10% versus Budget Var
	Act. Bal. Rand	Adjusted budget Rand		
Revenue				
Property rates	162,536,709	154,000,000	8,536,709	5.5
Service charges	438,283,116	461,001,000	(22,717,884)	(4.9)
Rental of facilities and equipment	659,597	853,000	(193,403)	(22.7)
Interest received (trading)	43,272,638	20,000,000	23,272,638	116.4
Fines	453,207	750,000	(296,793)	(39.6)
Licences and permits	5,273,345	2,505,000	2,768,345	110.5
Government grants & subsidies	458,755,217	259,200,000	199,555,217	77.0
Agency fees	8,754,694	8,000,000	754,694	9.4
Other income	19,068,253	7,172,927	11,895,326	165.8
Interest received - investment	10,738,501	7,675,000	3,063,501	39.9
Dividends received	-	10,000	(10,000)	(100.0)
	,147,795,277	921,166,927	226,628,350	24.6
Expenses				
Personnel	(230,634,312)	(213,441,943)	(17,192,369)	8.1
Remuneration of councillors	(19,769,001)	(19,378,000)	(391,001)	2.0
Depreciation	(37,825,407)	(40,000,000)	2,174,593	(5.4)
Finance costs	(73,813,563)	(53,815,000)	(19,998,563)	37.2
Debt impairment	(140,447,948)	-	(140,447,948)	-
Repairs and maintenance	(18,519,337)	(18,792,426)	273,089	(1.5)
Bulk purchases	(317,871,122)	(326,424,500)	8,553,378	(2.6)
Contracted Services	(41,729,203)	(48,605,102)	6,875,899	(14.1)
General Expenses	(96,978,160)	(234,757,225)	137,779,065	(58.7)
	(977,588,053)	(955,214,196)	(22,373,857)	2.3
Other revenue and costs				
Gain or loss on disposal of assets and liabilities	-	-	-	-
Gain or loss on exchange differences	6,462,328	-	6,462,328	-
Fair value adjustments	1,656,709	-	1,656,709	-
	8,119,037	-	8,119,037	-
Net surplus/ (deficit) for the year	178,326,261	(34,047,269)	212,373,530	(623.8)

Madibeng Local Municipality

Appendix F

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

June 2012

Name of Grants	Quarterly Receipts				Quarterly Expenditure				Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun		
Equitable share	95,321,000	80,251,000	61,832,000	-	-	-	-	-	Yes	n/a
Municipal Infrastructure Grant	38,170,000	57,840,000	67,930,000	-	24,266,571	63,200,006	38,582,464	79,438,784	Yes	n/a
Expanded Public Work Programmes	2,400,000	-	-	-	-	478,305	-	-	Yes	n/a
Municipal Systems Improvement Grant	-	790,000	-	-	-	500	-	994,802	Yes	n/a
Finance Management Grant	1,500,000	-	-	-	255,514	159,346	211,973	873,167	Yes	n/a
Disaster Management Grant	1,200,000	300,000	-	-	-	8,479	74,978	153,087	Yes	n/a
Integrated National Electrification Programme	-	7,202,000	-	-	-	2,628,543	3,670,655	902,801	Yes	n/a
Bojanala District Municipality Grant	80,000	-	-	-	-	-	-	80,000	Yes	n/a
	-	-	-	-	-	-	-	-	Yes	n/a
	138,671,000	146,383,000	129,762,000	-	24,522,085	66,475,179	42,540,070	80,433,586		